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January 7, 1991

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Pensions & Investments

The Newspaper of Corporate and Institutional Investing

$9 An Issue $135 A Year

AT DEADLINE

NYC assumption hike eyed

New York Mayor David Dinkins wants to raise the return assumption for the $40.7 billion New York City Retirement Systems to 9% from 8.25% to help pay for a 5% raise for municipal workers.

The change must be approved by Comptroller Elizabeth Holtzman, the system's trustees, the governor and the Legislature.

Search on to replace Quirk

Newly sworn-in Massachusetts Gov. William Weld and Treasurer Joe Malone will help select a replacement for the executive director of the $3 billion Massachusetts Pension Reserves Investment Management Board.

Paul Quirk stepped down after a fracas erupted over his ties to a dissident USX Corp. shareholder group and reports of high travel expenses by him and his staff.

Mr. Quirk, who will remain as a consultant through March, is considering several job options. The interim director is Philip Kett, PRIM chief investment officer.

Piedmont, RREEF merge

Piedmont Realty Advisors has been merged with The RREEF Funds, according to Donald A. King Jr., RREEF managing partner. Robert Zerbst, founder of Piedmont, will join RREEF as a principal.

Golz joins Rhumbline

Ronald Golz has joined Rhumbline Advisers Corp., Boston, as managing director.

Mr. Golz, who will represent Rhumbline to corporate pension funds and help develop business strategy, was executive vice president and head of institutional investors services when he took early retirement from State Street Bank & Trust Co. in July 1989.

INSIDE

Illustration by Richard Syska

Waiting for the ricochet

Reforms undertaken by pension fund executives intended to rejuvenate the venture capital industry after a decade of lagging returns are having dire, unforeseen consequences. In Commentary, page 12.

Funds pour $7.8 billion overseas

11-month total exceeds all of 1989

By Margaret Price

Undaunted by grim world events, a bevy of institutional investors committed $7.8 billion to international investments in the first 11 months of 1990.

The 11-month total was 23% higher than the $6.3 billion committed to international managers in all of 1989.

In quest of greater diversification and enhanced returns, funds are embracing a range of styles, with first-time foreign investors often choosing broad international equity mandates, while others are expanding this allocation or zeroing in on regional or country allocations. Foreign bonds — recent stellar performers — also have been gaining popularity.

The international flurry took a variety of forms. During the fourth quarter the $230 million Lukens Inc. pension fund invested overseas for the first time, while the $770 million Dallas Employees' Retirement Fund and the $900 million Goodyear Tire & Rubber Co. pension fund expanded foreign bond and equity holdings, respectively.

Lukens hired Grantham, Mayo, Van Otterloo & Co., Boston, to manage $20 million in foreign equities. Dallas hired Global Fixed Income Advisors, Newark, N.J., for global bonds, while Goodyear hired two regional equity specialists — HD International Inc., London, for European equities, and Globe Finlay Inc., New York, for the Pacific Basin including Japan. Specific allocations for the Dallas and Goodyear hires were not disclosed.

See **Foreign** *on page 23*

The Munich stock exchange will be one of many that benefit through foreign allocations from U.S. pension funds.

Hospitals take no chances

Risk a bad word for $60 billion

By Fred Williams

A few specialized fixed-income firms are prospering managing the ultraconservative hospital industry's $60 billion in investible assets.

While pension funds have gained a reputation, sometimes undeserved, for their aversion to risk and for playing their cards close to the vest, hospital asset managers make most other institutional investors seem almost carefree by comparison.

The conservative orientation represents an enormous opportunity for fixed-income managers, according to Terry Bilkey, principal with Yanni-Bilkey Investment Consulting Co., Pittsburgh, which has carved out a niche in the hospital industry.

Consultants point most often to short- and intermediate-term fixed-income managers such as Payden & Rygel, Los Angeles; Merganser Capital Management Corp., Cambridge, Mass.; Capital Management, Chicago; Lowe, Brockenbrough, Tierney & Tattersall, Richmond, Va.; Alan Seidner Co., Pasadena, Calif.; and Neuberger and Berman, New York, as the major sources of outside management, other than banks, for the hospital industry.

The nation's 6,000 non-governmental hospitals, most of which are non-profit organizations, are heavily oriented toward the fixed-income market for most of their pension and institutional investments. Not just any fixed-income instruments, however. Hospitals are heavily weighted toward the short- and intermediate-term end of the fixed-income spectrum and, except for pension funds, most of the assets are managed internally.

In discussions with dozens of health-care officials, investment specialists and consultants, "conservative" or "ultraconservative" was mentioned by each, without exception, when describing hospital asset management.

Aside from about $100 billion in total pension assets, hospitals have $60 billion to $80 billion in various fund accounts under management. At least 95% of those accounts is tax exempt.

The primary asset pools are funded depreciation accounts, funds set aside to finance capital improvements and major equipment purchases; excess operating assets accounts, including Medicare reimbursements and other government or third-party pay-

See **Hospitals** *on page 22*

Illustration by Guy Porfirio

Can firm settlement expensive

Continental Can Co. Inc.'s $415 million settlement of pension litigation will make companies more careful when scaling back during the recession, some pension experts think.

But the egregiousness of Continental's offenses, the relative rarity of such abuses and recent pension-law changes make it unlikely the company's situation is duplicated elsewhere, the experts said.

Continental agreed to pay $415 million to more than 3,000 former employees who alleged the company had used an elaborate computerized scheme to deprive them of pension benefits by laying them off before they qualified for early retirement benefits.

The payment by Continental, now a subsidiary of Omaha, Neb.-based Kiewit Continental Inc., is believed to be the largest settlement of a case involving the Employee Retirement Income Security Act of 1974.

"It's going to require companies to be very, very careful about how they proceed when they undertake corporate reorganization . . . if the net effect is to give the appearance of blowing away pension rights," said Michael Gordon, a Washington pension attorney.

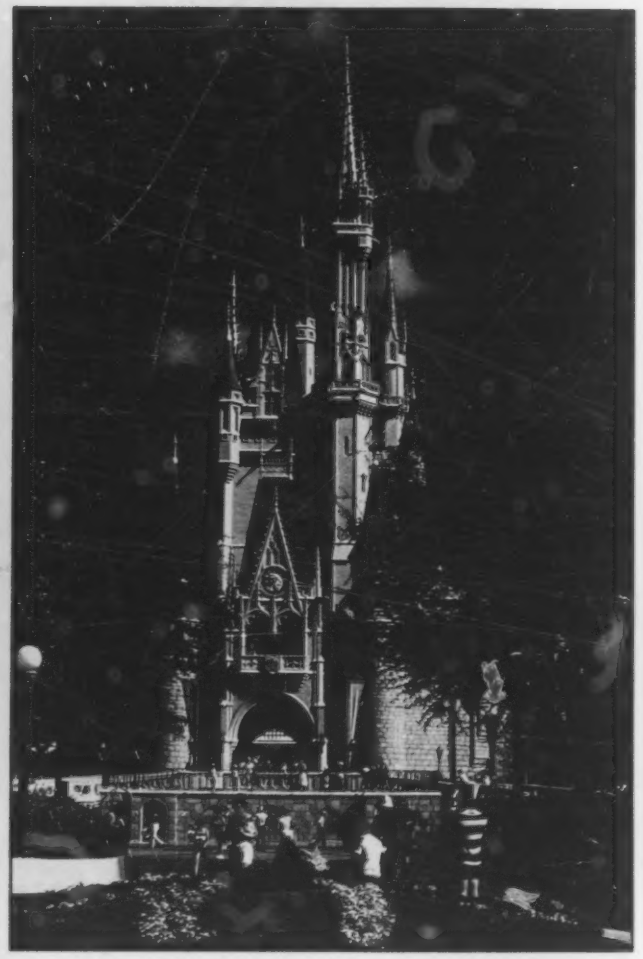
Nevertheless, Mr. Gordon said the settlement should not lead the courts to view every layoff as a possible violation of ERISA.

Continental's situation is considered very unusual by benefits experts.

Under the 1977 contract nego-

See **Layoffs** *on page 23*

NEWS DIGEST



Walt Disney Co. made business news in 1990 with a $2.25 billion convertible deal, the largest ever. The deal was cited as one of the 10 of the best deals of 1990. The series begins on page 15.

The ultraconservative nature of hospital investment practices are making a lot of good news for a few fixed-income managers. Page 1.

FINANCING

Lenders who have discovered the lucrative business of debtor-in-possession financing are the quiet beneficiaries of the current economic downturn. Page 3.

For the third consecutive year, Merrill Lynch & Co. has topped the underwriting rankings both in the United States and throughout the world. Page 4.

INTERNATIONAL

Grim world events are not discouraging U.S. institutional investors from going overseas, as almost $8 billion has been poured into international investments. Page 1.

REAL ESTATE

An executive with Goldman, Sachs & Co. is defending the firm's actions after criticism by participants in a faltering Goldman commingled real estate fund. Page 2.

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Vol. 19, No. 1 — Pensions & Investments (ISSN 0273-5466) is published biweekly with a special edition in May by Crain Communications, Inc., 740 Rush St., Chicago, Ill. 60611-2590. Second class postage paid at Chicago, Ill. and at additional mailing offices. Postmaster: Send address changes to Pensions & Investments, Circulation Dept. 965 E. Jefferson, Detroit, Mich. 48207.

Pennsylvania goes private

Investment part of new asset strategy for state fund

By Hillary Durgin

HARRISBURG, Pa. — The Pennsylvania Public School Employes' Retirement System is nibbling at new investment opportunities in the private placement market just as risk-wary financial institutions rein in their investments.

The $16 billion fund is in the midst of negotiating a $15 million investment in a Midwest snowplow company, its first in a slew of private placement deals that could total $500 million.

While the fund's board decided to invest in private placements before the more recent recessionary woes, the timing may be perfect, outside consultants say. Not only can pension funds pick from a variety of deals that usually would have gone to banks or insurance companies, but the dearth of traditional investors means funds can negotiate favorable investment terms.

"The disappearance of the high-yield market and the disappearance of the market for initial public offers means a lot of growth companies need capital," said Douglas K. Le Bon, vice president, principal and head of special investments at Wilshire Associates Inc., Santa Monica, Calif.

And while there is growing pressure for plan sponsors to slide in to provide financing, "because the pension funds know they have less competition, they know they can be tougher on terms," Mr. Le Bon said.

The Pennsylvania decision to invest in private placements was part of an overall strategy to explore new asset classes as the fund diversifies to seek maximum returns, said John C. Lane, chief investment officer for the fund.

Private placements are occupying an increasingly important role in pension fund portfolios, consultants said. Pension funds that have large indexed portfolios can take on the additional level of risk private placements might represent.

Also, funds are realizing that as long-term investors, they do not need to fear illiquidity — once a barrier to their entry.

While some pension funds might be reviewing their asset allocations as a knee-jerk reaction to the current market slump, nontraditional investments, including private placements, will occupy an increasingly important role as part of pension funds' long-term investment strategies, said Paul V. Troup, senior vice president, Callan Associates Inc., Atlanta.

Pennsylvania's blossoming private placement portfolio sits alongside a $50 million investment in farmland, a $72 million mortgage loan to a local developer and a growing exposure in global fixed income.

Investments such as those the

See **Private** *on page 22*

Goldman defends action

Fund liquidation proper, exec says

By Steve Hemmerick

NEW YORK — An executive with Goldman, Sachs & Co. has ripped into some client criticism of his firm's handling of its commingled real estate fund Institutional Property Assets.

Kenneth Brody, a partner with Goldman, Sachs and a trustee of InProp, said ongoing liquidation has been handled in the "highest professional manner," and clients in the fund are "better off" today than they would have been with another manager.

Some clients in the fund have faulted Goldman, Sachs for being unable to complete liquidation of InProp almost four years after it was announced (*Pensions & Investments*, Dec. 24). The fund still has one property, the Philadelphia Stock Exchange building.

In 1986, said Mr. Brody, Goldman, Sachs officials saw it would be in the best interests of its clients to liquidate the open-end commingled fund because of worsening conditions in the real estate market.

At that time, he said, the fund had about $300 million in assets, about $100 million of which was cash.

Instead of investing the remaining cash and getting the clients' 1.25% yearly management fee, Goldman, Sachs returned the $100 million to the nine pension fund clients in the fund.

"Obviously what we did at that time was very unusual because we cost ourselves money. We gave up our fees by returning the cash and not buying properties and (began) selling properties. That is not the normal way a pension fund manager operates," said Mr. Brody.

When clients were informed of the sale of the four properties in InProp, the firm said it wouldn't resort to "fire sale" prices and it might take until 1992 or 1993 to liquidate, said Mr. Brody.

Goldman, Sachs did sell one property in the fund in 1986, the 30 Wall St. building that gave clients a 14% total return, he said. In 1988, it sold the Jefferson Court building in Washington that gave clients a total return of 15%, he said.

Both properties were sold, he said, at "market peaks" rather than holding onto them in a crumbling real estate market.

The properties sold, he said, "are clearly today worth a lot less than they were when we sold them. Our timing was on the money, which is different from most other people.

"What we have done for (clients), my guess is, relative to any other office investment pool they invested in at that time, is performed better because we sold properties off way, way before the decline" in the real estate market, said Mr. Brody.

About the same time, he said, the InProp fund returned to a

See **Goldman** *on page 20*

Health-care unions split fund

By Terry Williams

NEW YORK — The first round of hirings has been completed as the $2.4 billion National Pension Trust Fund for Hospital & Health Care Employees is broken up into five distinct pension funds.

The largest of the new pension funds — representing health and hospital workers in the Northeast — will have about $1.9 billion in assets, while the four others will receive between $50 million and $150 million each. Each will hire its own consultants, investment managers and administrative personnel, said to Eleanor Tilson, executive director of the national fund.

So far, only the New England Health Care Employees Pension Fund, Hartford, Conn., has begun operations. The other four funds have not completed the hiring of administrative and investment personnel, but are expected to be on their own by July 1.

The other funds are: the 1199 Health Care Employees Pension Fund, New York; the Pension Fund for Hospital and Health Care Employees — Philadelphia and Vicinity; the Connecticut Health Care Associates Pension Fund, Hartford; and District 1199J — New Jersey Health Care Employers Pension Fund, Newark.

Until the separation is complete, the funds will operate under the umbrella of the national pension trust, Ms. Tilson said, which then will end operations. Distribution of the assets will be made in cash.

"Since we knew in advance that this was happening, there was enough liquidity to make this happen," Ms. Tilson said.

The funds already have made their first outside hires.

All of the funds — except for New Jersey — hired Chicago-based Marco Consulting Group, which was the consultant for the national fund. The New Jersey fund hired Madison Portfolio Consulting Inc., New York, as its consultant.

In addition, the Philadelphia fund hired WR Lazard & Co., New York, as a fixed-income manager, placing $17 million with the firm.

The New York fund, the largest, will retain the roster of investment advisers used by the national fund.

The breakup is the result of a vote in which the membership elected to affiliate with either the Service Employees International Union or the American Federation of State, County and Municipal Employees, Ms. Tilson said. Once the membership decided to split, union leaders decided to separate the pension assets also. ■

Underwriting rankings have familiar ring

By Marlene Givant Star

For the third consecutive year, Merrill Lynch & Co. topped the underwriting rankings domestically and globally.

In domestic corporate new issues, Merrill widened its lead over second-place Goldman, Sachs & Co. Merrill handled volume of $54.415 billion, representing 17.5% of the 1990 market compared with 14.9% the previous year, according to IDD Information Services, New York. Figures are as of Dec. 27.

Goldman, Sachs' volume rose to $40.329 billion, although its market share slipped a tad to 13% from 13.8% the previous year.

"To rank second and relatively even with last year's (market share) we would consider to be an outstanding result considering that the industry is becoming more concentrated and debt financing is more globalized," said Mark Schwartz, a partner in charge of capital markets at Goldman, Sachs.

"We try to emphasize profitability as well as market share," he said, noting the firm had record profits in the new debt issues and capital markets areas.

Fueled by its lead in oil and gas stock financings, Salomon Brothers Inc. moved up a notch to third place in domestic corporate new issues, switching places with First Boston Corp., which finished fourth. Salomon also moved up a notch in global underwritings to fourth place, displacing Morgan Stanley & Co., which fell to fifth. But Morgan Stanley maintained its fifth place ranking in domestic new issues.

Firm rankings changed little considering the harrowing year for the financial markets. What did change were fees. Although domestic corporate new issue volume narrowly exceeded 1989's record high — logging in at $311 billion — underwriting fees plunged. As if earnings pressure and layoffs weren't enough for Wall Street firms to contend with, fees crashed to $1.9 billion from $3.1 billion in 1989 as the traditionally strongest fee generators, junk bonds and equities, languished.

The turbulent fourth quarter with its stock market dive, Middle East tension and bleak economic forecasts dampened 1990's results. Fourth-quarter losses caused 1990's percentage increase in domestic corporate new issue volume to be the lowest since 1987, when volume actually declined. After a robust three quarters, the fourth quarter of the year realized losses in every category of debt and equity new issues except asset-backed debt financing.

Mortgage-backed securities weathered the storm of bad news. Thanks largely to the strength of the mortgage-backed market, Kidder, Peabody & Co. was the rising star among the top houses, shooting to No. 6 in the overall rankings from No. 10 in 1989. Domestic new issue underwritings by Kidder rose $12.3 billion to $21.1 billion, driven by the firm's first-place showing in mortgage-backed debt.

"The environment was good for the mortgage business and we were fortunate to capitalize on that more than our competitors," said James A. Mullin, managing director of Kidder, Peabody.

He added Kidder's strong commitment to investment banking is "starting to pay off."

While 1990 was an outstanding year for asset-backed and mortgage-backed securities, corporate underwritings by industrials dropped 28.6%. Among corporates, only financial services issues showed a healthy rise of 10.8%.

The junk bond market virtually vanished. Only 10 junk bond offerings totaling $1.3 billion were completed in 1990, a 94.9% drop from 1989 when now-defunct Drexel Burnham Lambert was king of the junk rankings.

The domestic equity sector fell 28% for the year. The stock market's skid and Mideast tensions sent volume down 59.6% during the fourth quarter alone. Initial public offerings were hardest hit, falling 60% to their lowest level since the second quarter of 1985.

The same negative factors coupled with Japan's stock market drop hurt overseas markets. Global new issue volume slumped 8.8% to $504.7 billion for the year, a drop of $48.5 billion from 1989. Equities were hardest hit, declining 40%.

But the globalization of the markets left its mark on Wall Street's competitive landscape in 1990. U.S. corporations are nearly as likely to finance in European currency units or EuroSwiss francs as in dollars, forcing U.S. banks to compete for debt business against big foreign banks like Nomura Securities Co. Ltd., Deutsche Bank and Swiss Bank Corp.

"Industry conditions are as difficult as we've seen them in the last 10 to 12 years," Goldman's Mr. Schwartz said.

While profit-squeezed banks are becoming less willing to commit capital or take underwriting risks on less profitable transactions, Goldman, Sachs plans to capitalize on its relatively strong financial health and aims to build market share in 1991.

"We're quite committed to the capital markets and debt markets in particular," he said, adding Goldman will continue to grow its international business. ■

1990 underwriting rankings
(Full credit to lead manager)

All issues - global*

Firm	Volume $ mils.	Market share (%)
1. Merrill Lynch (1)	120,149.1	23.8
2. First Boston/CSFB/CS** (2)	107,854.3	21.4
3. Goldman, Sachs (3)	94,457.2	18.7
4. Salomon Brothers (5)	91,857.8	18.2
5. Morgan Stanley (4)	75,027.6	14.9
6. Lehman Brothers (7)	60,888.5	12.1
7. Nomura Securities (6)	57,151.8	11.3
8. Union Bank/Switz. (11)	49,527.5	9.8
9. J.P. Morgan (10)	49,189.5	9.7
10. Deutsche Bank (13)	42,211.3	8.4

* All taxable issues, debt and equity, worldwide, excluding private placements
** First Boston/Credit Suisse First Boston/Credit Suisse
Source: IDD Information Services, New York
Numbers in parentheses show the firm's 1989 ranking

All issues - domestic*

Firm	Volume $ mils.	Market share (%)
1. Merrill Lynch (1)	54,415.0	17.5
2. Goldman, Sachs (2)	40,328.9	13.0
3. Salomon Brothers (4)	32,376.3	10.4
4. First Boston (3)	32,237.6	10.4
5. Morgan Stanley (5)	31,272.4	10.1
6. Kidder, Peabody (10)	21,059.9	6.8
7. Bear, Stearns (7)	19,252.1	6.2
8. Lehman Brothers (6)	19,064.7	6.1
9. Prudential-Bache (9)	13,285.5	4.3
10. DLJ (11)	6,172.7	2.0

* All taxable issues, debt and equity, sold in U.S. only
Source: IDD Information Services, New York
Numbers in parentheses show the firm's 1989 ranking

All issues - domestic*

Firm	Volume $ mils.	Market share (%)
1. Merrill Lynch (1)	28,080.2	23.6
2. Morgan Stanley (3)	20,506.7	17.2
3. Goldman, Sachs (2)	19,417.5	16.3
4. Salomon Brothers (4)	13,265.2	11.1
5. First Boston (6)	9,697.1	8.1
6. Lehman Brothers (5)	8,719.8	7.3
7. Kidder, Peabody (8)	2,979.8	2.5
8. Alex. Brown & Sons (11)	2,832.3	2.4
9. PaineWebber (10)	2,175.9	1.8
10. Bear, Stearns (13)	2,038.4	1.7

* All taxable issues, debt and equity, excluding mortgage- and asset-backed debt and agency issues, sold in U.S. only
Source: IDD Information Services, New York
Numbers in parentheses show the firm's 1989 ranking

All debt issues

Firm	Volume $ mils.	Market share (%)
1. Merrill Lynch (1)	51,711.2	17.9
2. Goldman, Sachs (2)	37,192.5	12.9
3. First Boston (3)	31,433.9	10.9
4. Salomon Brothers (4)	30,340.9	10.5
5. Morgan Stanley (5)	30,164.2	10.4
6. Kidder, Peabody (10)	20,174.6	7.0
7. Bear, Stearns (7)	19,063.1	6.6
8. Lehman Brothers (6)	17,938.2	6.2
9. Prudential-Bache (9)	12,982.3	4.5
10. DLJ (11)	6,072.6	2.1

Source: IDD Information Services, New York
Numbers in parentheses show the firm's 1989 ranking

Convertible debt

Firm	Volume $ mils.	Market share (%)
1. Merrill Lynch (1)	2,076.6	43.8
2. First Boston (3)	1,341.7	28.3
3. Goldman, Sachs (7)	371.5	7.8
4. Bear, Stearns (15)	200.1	4.2
5. Salomon Brothers (2)	150.0	3.2
6. Morgan Stanley (13)	100.0	2.1
7. Allen (na)	100.0	2.1
8. Smith Barney (11)	95.0	2.0
9. Drexel Burnham (12)	78.5	1.7
10. Montgomery Securities (na)	70.0	1.5

Source: IDD Information Services, New York
Numbers in parentheses show the firm's 1989 ranking

Mortgage- and asset-backed debt

Firm	Volume $ mils.	Market share (%)
1. Merrill Lynch (5)	21,345.9	12.1
2. First Boston (2)	20,333.7	11.5
3. Goldman, Sachs (1)	19,945.2	11.3
4. Kidder, Peabody (10)	17,777.3	10.1
5. Bear, Stearns (3)	17,019.8	9.7
6. Salomon Brothers (6)	16,519.8	9.4
7. Prudential-Bache (4)	12,538.1	7.1
8. Lehman Brothers (7)	11,070.3	6.3
9. Morgan Stanley (8)	7,401.0	4.2
10. DLJ (11)	5,501.4	3.1

Source: IDD Information Services, New York
Numbers in parentheses show the firm's 1989 ranking

Initial public offerings

Firm	Volume $ mils.	Market share (%)
1. Alex. Brown & Sons (2)	2,555.9	25.3
2. Goldman, Sachs (1)	1,246.5	12.3
3. PaineWebber (6)	1,148.2	11.3
4. Dean Witter (10)	727.5	7.2
5. Merrill Lynch (5)	666.6	6.6
6. Smith Barney (9)	431.5	4.3
7. Salomon Brothers (11)	407.6	4.0
8. Lehman Brothers (4)	391.1	3.9
9. First Boston (8)	382.7	3.8
10. Prudential-Bache (3)	290.7	2.9

Source: IDD Information Services, New York
Numbers in parentheses show the firm's 1989 ranking

Common stock

Firm	Volume $ mils.	Market share (%)
1. Alex. Brown & Sons (3)	2,792.3	14.6
2. Goldman, Sachs (1)	2,601.2	13.6
3. Merrill Lynch (2)	2,064.3	10.8
4. Lehman Brothers (5)	1,777.8	9.3
5. Salomon Brothers (12)	1,655.4	8.6
6. PaineWebber (6)	1,213.6	6.3
7. First Boston (9)	923.6	4.8
8. Morgan Stanley (7)	883.2	4.6
9. Dean Witter (10)	777.1	4.1
10. Smith Barney (11)	754.3	3.9

Source: IDD Information Services, New York
Numbers in parentheses show the firm's 1989 ranking

Preferred stock

Firm	Volume $ mils.	Market share (%)
1. Merrill Lynch (1)	1,331.0	31.4
2. Smith Barney (6)	600.0	14.2
3. Lehman Brothers (2)	541.0	12.8
4. Goldman, Sachs (5)	510.0	12.0
5. Kidder, Peabody (12)	485.0	11.4
6. Salomon Brothers (4)	340.0	8.0
7. Morgan Stanley (7)	225.0	5.3
8. Dean Witter (na)	125.0	3.0
9. Blunt Ellis & Loewi (na)	45.0	1.1
10. Roney (na)	24.0	0.6

Source: IDD Information Services, New York
Numbers in parentheses show the firm's 1989 ranking

Municipal fund hires consultant

SPRINGFIELD, Mass. — The $100 million City of Springfield Contributory Retirement System has hired The Wyatt Co., Wellesley Hills, as its consultant, said Timothy Murphy, deputy director.

Wyatt will do an asset allocation study and provide a full spectrum of consulting services. By April, Springfield expects to conduct a manager search for an asset class to be determined.

The other finalists were J.A. Hanna Investment Advisory Service, Boston, and Prime Bucholz & Associates, Portsmouth, N.H. ■

PEOPLE

Phillips stresses global approach

■ Evidently, America is still the land of opportunity.

At Frank Russell Co., the new president — the first new one in 32 years — is Michael J. Phillips, a British citizen. The affable, 42-year-old Mr. Phillips had been Russell's senior vice president and consulting director.

"I'm a hybrid. I'm a permanent resident of the U.S., but I clearly can't vote. So it's taxation without representation," he quipped.

But being a non-U.S. citizen may hold some advantages for Mr. Phillips, who takes over for George Russell Jr. — who remains Russell's chairman and chief executive officer. "Our future lies in being global," said Mr. Phillips. As long ago as the early 1970s, George Russell correctly foresaw that pension funds "would become much more international."Frank Russell Co., Tacoma, Wash., also has become more international. It has operations in London, Toronto, Sydney and Tokyo. Its international business, mainly in the consulting area, "has been growing about 25% a year over the past five years or so," said Mr. Phillips. However, Frank Russell's aim is to become "a fully global company in all three of its areas" — consulting, investment management and data collection.

Michael Phillips succeeds George Russell Jr. as Frank Russell's new president.

Retail property returns, pulled down by falling values, no longer provide solace to investors.

REAL ESTATE

Retail, warehouses also fall victim to property woes

■ Warehouse and retail properties, previously exempt from problems hurting most other forms of real estate, are now suffering from the economic downturn in the United States, according to the Russell-NCREIF Property Index.

The total return for warehouse properties declined to 0.9% in the third quarter of 1990, compared with 3.5% in the third quarter of 1989. The total return for retail properties declined to 1.1% in the third quarter, compared with 2.4% during the same period of the previous year.

Office properties, which have suffered generally from high vacancy rates nationwide during the past several years, showed further declining performance. According to the index, office properties had a total return of 0.1% during the third quarter, compared with 0.9% in the third quarter of 1989.

The NCREIF Real Estate Performance Report stated the decline in returns came from falling appraised values rather than income returns. Income from the property types held relatively steady.

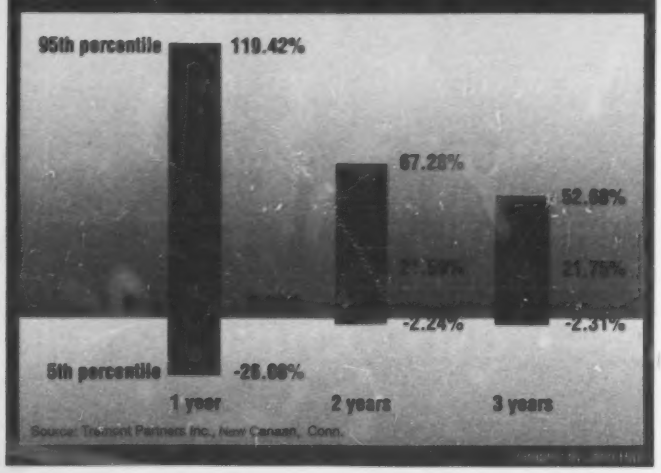
The index measures the performance of 1,389 institutional properties valued at $20.5 billion. No leveraged properties are included.

Overall, properties in the index had a total return of 0.6% for the third quarter of 1990, down more than half from the 1.7% total return for the third quarter of 1989.

Tremont universe of limited partnerships

(Periods ended Sept. 30)

Limited partnerships that focused on short selling provided the most outstanding results during the third quarter of 1990. Specialty managers that focused on technology stocks continued to struggle. Returns for periods greater than one year are annualized. Investment returns are gross (before) management expenses and performance fees.



Source: Tremont Partners Inc., New Canaan, Conn.

WASHINGTON

Employers given 1-year extension

■ Employers have won an additional year to comply with a complicated Internal Revenue Service proposed regulation affecting virtually every pension plan in the country.

The weighty rules that guide employer testing for discriminatory practices under 401(a)(4) of the Internal Revenue Code will go into effect in 1992, although employers must make a good faith interpretation of the rules until then.

The extra year will give employers more time to test their retirement plans for compliance and make any necessary design changes in order to conform with the rules, which are not yet finalized.

The delay will save companies some adminstrative burdens and expense, said John Woyke, principal with TPF&C, Valhalla, N.Y.

PERFORMANCE

Allocators make hay in 3rd quarter

■ The median asset allocator beat the market by 616 basis points in the third quarter, according to figures compiled by Performance Analytics Inc., Chicago.

The median return for the universe was −7.7%. First quartile performance was −4.9%, while the third quartile cutoff was −10.27%, still topping the S&P 500's −13.86%.

The top performer was J.H. Ayres & Co. Inc., Colorado Springs, Colo., which returned 3.14% for the third quarter and 18.6% for the year through Sept. 30. The firm has been invested 100% in cash since June.

Buffalo Capital Corp., Newport Beach, Calif., returned 2% for the quarter and 5.5% for the year to date. The firm's clients were 100% in cash for most of the first three quarters, but went to 100% equity to start the fourth quarter.

Krehbiel & Hubbard, Kirkland, Wash., the only other firm listed in the universe that was at 100% cash at the end of the third quarter, returned 0.8% for the quarter and 4.3% for the first three quarters of the year.

On the opposite side of the spectrum, Webster Management Corp., New York, reported being 81% in stocks at the end of the third quarter; it returned −10.27% for the quarter and −6.6% for the three-quarter period.

The firm changed its name to Kidder, Peabody Asset Management and replaced James Taliaferro, its chief investment officer.

BENEFITS

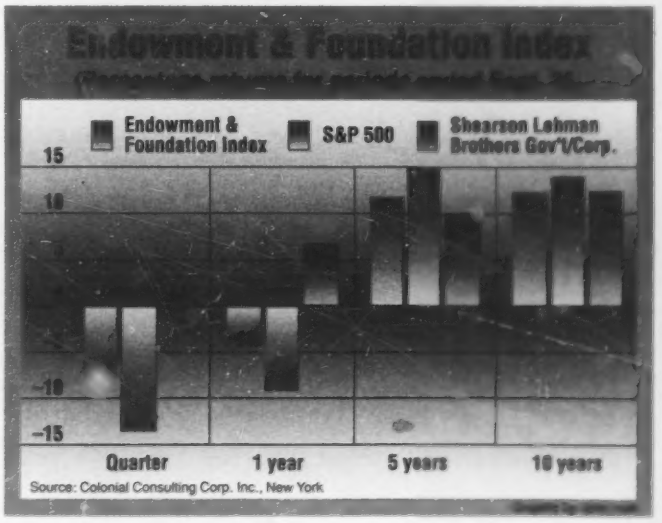
Pension payments vary by country

■ Retirement benefits worldwide range from less than half to upwards of 80% of workers' final income, according to a study by Towers Perrin, New York.

A typical middle-management employee in Italy will receive retirement benefits amounting to 84% of final income; the benefits consist primarily of social security payments and a "termination indemnity," which is a government-mandated lump-sum payment upon retirement. A Hong Kong employee, however, will have only about 48% of final income replaced at retirement, entirely through company plans.

"Multinational companies face an astounding number of retirement income variables around the globe," said Wolfgang Glage, Towers Perrin vice president.

In most countries, highly paid workers have a smaller percentage of their income replaced by retirement benefits than do lower-paid ones. U.S. private pension plans and Social Security replace 84% of the typical factory worker's income, compared with 68% of a middle manager's and 53% of an executive's. In Japan, 67% of the factory worker's pay is replaced, 50% of the middle manager's and 40% of the executive's.



Source: Colonial Consulting Corp. Inc., New York

INTERNATIONAL

U.S. government seeks volunteers

■ Will foreign companies voluntarily inform the U.S. government if they are making sizable investments here?

That's what the Treasury Department is hoping.

The Committee on Foreign Investment in the United States, chaired by the Secretary of the Treasury, will continue to review voluntary notice of mergers, acquisitions and takeovers of U.S. businesses by foreigners even though the section of the Defense Production Act requiring notice has lapsed. That provision authorized the president to review, on national security grounds, proposed transactions involving foreigners that could result in control of U.S. firms.

The Treasury Department is urging foreigners to continue to file voluntary notices with the CFIUS until Congress decides whether to renew the provision.